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El Salvador

Retail Food Sector

Report

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Report Highlights:

Amidst a global economic slowdown and two back to back earthquakes in early 2001 severely affecting economic performance, El Salvador's food retail sector continues to grow. In CY2001, El Salvador imported approximately \$ 367 million in consumer foods. Growth in the Supermarket industry continues to fuel retail sales of consumer oriented products. There are 129 supermarkets located nationwide handling approximately 37 % of the food retail market.

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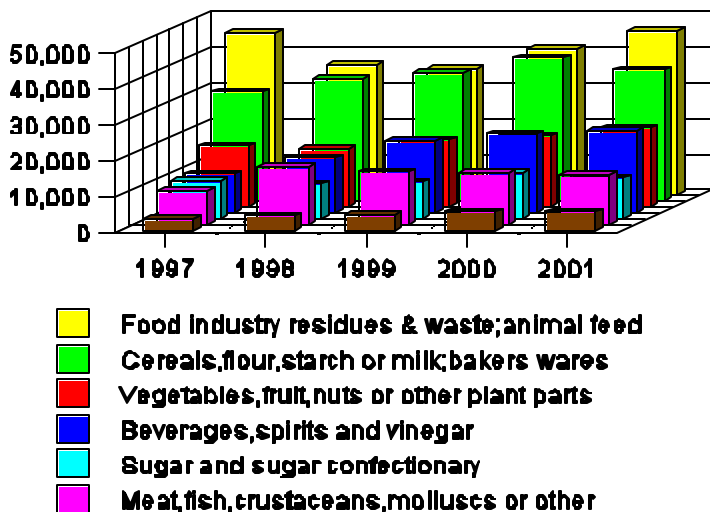
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I. MARKET SUMMARY

- ! El Salvador imported approximately \$ 367 million in consumer foods in 2001.
- ! The U.S. accounted for 21 percent of 2001 total consumer product imports.
- ! Per capita food expenditures were \$ 923 in 2001.
- ! Approximately 1.2 million consumers regularly purchase consumer ready products.
- ! In 2001, supermarket industry reported sales of \$ 405 million.
- ! Convenience stores reported sales of \$47 million in 2001.
- ! In general, the major commercial exporters to El Salvador in 2001 were in rank order: the United States, Guatemala, Mexico, Costa Rica, Panama, Honduras and Nicaragua.
- ! There are 129 supermarkets located nationwide that handle approximately 37% of the food retail market. There are 98 convenience stores located all over the country that are managed by the 3 main gasoline distributors: Shell, Esso(Exxon) and Texaco.
- ! Markets in San Salvador, Santa Ana and San Miguel sell 75% of the imported consumer-ready foods.
- ! Salvadoran consumers have become accustomed to higher quality consumer-ready products.
- ! Supermarkets continue to open branches in populated working class areas.
- ! There is a 13% value added tax (VAT) for food products.
- ! About 65% of products sold in supermarkets are imported, mainly from the U.S. and Central American neighbors.
- ! U.S. exports of consumer-oriented agricultural products to El Salvador reached \$ 40.6 million in 2001. Additional U.S. products are transhipped into El Salvador.

EL SALVADOR'S IMPORTS OF PREPARED FOODSTUFF FROM 1997 TO 2001 IN THOUSAND DOLLARS

In 2001, imports of prepared foodstuffs have increased approximately 2 % compared to 2000.



The largest import increases were: food industry residues, and vegetables, fruit, nuts or other plant parts. Imports of a wide variety of chocolates, mainly from the U.S., Costa Rica, Brazil and Guatemala, increased the cocoa and cocoa preparations category in 2001. The beverage and spirits category also continues an upward trend mainly fueled by increased consumption by the Hotel, Restaurant, Institutional (HRI) sector. In addition, many new varieties of liquors have been introduced to the market, for instance wine coolers and bourbon. This category grew by 4 % in 2001.

Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
Many Salvadorans have studied, traveled and worked in the United States, thus have developed a taste for U.S. food products.	The U.S. must supply a diversity of products that can compete in quality and price with similar products from other countries, i.e. Mexico, Central America, Chile.
U.S. products in general are considered of higher quality and safer to consume.	Some consumers can pay for U.S. quality, but for the majority, price is the major consideration in purchasing decisions.
In the 3 most populated cities, San Salvador, San Miguel and Santa Ana, the majority of employees and workers eat lunch out, and can take advantage of ready-to-eat products in supermarkets and convenience stores.	In general, the introduction of ready-to-eat products into supermarkets and convenience stores needs to be done through a local distributor.
Growth in the supermarket industry is fueling demand for consumer-ready products.	Products have to be familiar to the consumers; therefore, if it is not a well known U.S. brand, sampling is a must.
Importers and retailers have knowledge and are well trained in purchasing and merchandising U.S. food products.	Access by sea is restricted to the Pacific, roads to Central America are not safe and in bad condition, and air cargo is expensive.
Distributors generally consider U.S. exporters reliable and trustworthy.	Clearing at customs has improved due to the auto-liquidation service of the Ministry of Hacienda. However, corruption is still a burden to importers.
Franchises of ready-to-eat products from the U.S. have expanded over the last decade. Fast foods such as hamburgers, pizza, subs, etc. are very popular.	Salvadoran investors would like to obtain more information about franchising opportunities.
U.S. products such as wine, nuts, liquors, and gourmet products are not locally produced.	Product price and consumer incomes are limiting factors.

II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS, SUPERSTORES, HYPER MARKETS, CLUB AND WAREHOUSE OUTLETS

El Salvador has several supermarkets nationwide, one hyper market in Soyapango, (considered part of the greater area of San Salvador), several smaller hyper markets and two club warehouse outlets in the capital city.

Distribution Channels

Products are usually imported by local distributors from the U.S. and other suppliers. Local distributors also carry locally made products. Local distributors have their own distribution warehouses and sort out products from there to supermarkets, superstores, hypermarkets, club and warehouse outlets. Some imports are done directly by retailers from direct exporters in the U.S. and other exporting countries.

- ! Most food products (local and imported) are purchased by supermarkets through local distributors.
- ! 98 percent of red meat or cattle imports come directly from Nicaragua.
- ! Some supermarkets, in addition to retail sales, also sell in large quantities to companies, cooperatives and to small stores (tiendas), that are mostly located in rural areas.
- ! Purchasing managers buy U.S. food products mostly from local distributors, although a few products are imported directly, specially liquors and wines.
- ! Fruits and vegetables are purchased from local producers and imported mostly from the Central American region.
- ! Grapes, apples and stone fruit are supplied by the U.S. and Chile.

Entry Strategy:

- ! Appoint a local distributor.
- ! Although some supermarkets import directly, most food items are purchased from distributors that are appointed by U.S. or other countries' exporters. According to supermarket purchasing managers, it is more convenient for them to purchase from local distributors and save the storage costs of keeping a large warehouse. For a U.S. firm aiming to enter the Salvadoran market it is recommended to appoint a local distributor.
 - . To appoint a local distributor a U.S. firm has to:
 - Make sure that the local distributor has a good credit standing (the U.S. Department of Commerce offers a gold key service that provides information on local importers).
 - Sign a contract with a local lawyer.
- ! Introduce product with Point of Purchase (POP) displayers.
- ! To introduce a new product to the Salvadoran market, purchasing managers suggest doing a promotion that includes not only product information, but sampling as well in order to make the product known to the consumers. There have been experiences where even well known U.S. food brands have not sold because customers were unfamiliar with the product. The same is true for frozen products which are just beginning to appeal to the Salvadoran consumer and viewed by some marketing experts as an area to be developed.
- ! Attend food trade shows to meet Salvadoran buyers. Marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce to this market.
- ! Point of Sale (POS) material is very important to promote food products in this market. In addition, advertising through newspapers, radio and television is a must.

Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Although a number did provide information, they requested it be kept confidential. Therefore, sales have been categorized as follows:

A: Less than \$10 million
 B: \$11-\$25 million
 C: \$26-\$75 million
 D: \$76- \$100 million
 E: \$101-\$150 million
 F: More than \$150 million

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Europa, supermarkets and one hypermarket	Local	C	4	Capital City, San Salvador	Direct Imports, Local Distributors
La Despensa de Don Juan, supermarkets	Local	E	31	23 in San Salvador, 2 in Santa Ana, 1 in Sonsonate, 3 in San Miguel, 1 La Libertad and 1 in Usulután	Direct Imports, Local Distributors
Selectos, supermarkets, hypermarkets ¹	Local	F	54	17 in San Salvador, 37 nation wide	Direct Imports, Local Distributors
Price Smart, Club Warehouse	Foreign U.S.	C ²	2	Capital City, San Salvador	Direct Imports, Local Distributors
De Todito	Local	B	14	Nationwide	Direct Imports, Local Distributors

¹ Selectos purchased El Sol and La Tapachulteca supermarkets in 1999.

² Began operations in August 1999.

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Despensas Familiares	Foreign Guatemala (La Fragua Group/Ahold)	C	23	Near open markets, nation wide	Direct Imports, Local Distributors
Hyper Paiz, hypermarket	Foreign Guatemala (La Fragua Group/Ahold)	C ³	1	Soyapango	Direct Imports, Local Distributors

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by FAS, San Salvador.

- ! The Supermarket industry is very competitive in El Salvador. Many traditional chains have been forced out of the market or have been bought by stronger supermarket chains.
- ! The industry is focusing on highly populated areas in the capital city of San Salvador and has started a rapid expansion in the smaller towns scattered throughout the country.
- ! Paiz and Banco Cuscatlán (El Salvador's second largest bank) have joined financially raising assets to a combined total of \$330 million.
- ! Grupo La Fragua (Paiz and Despensas Familiares owners) have merged with Royal Ahold from the Netherlands and Corporacion de Mercados Unidos (CSU) from Costa Rica to create the Central American Retail Holding Company (CARHCO). Their idea is to expand their presence throughout the Central American region.
- ! La Fragua operates 96 stores in Guatemala, 24 in El Salvador and 10 in Honduras. CSU operates 94 stores in Costa Rica, 19 in Nicaragua and 14 in Honduras. Royal Ahold operates more than 8,500 outlets in 25 countries.
- ! CARHCO is actively looking for a partner in El Salvador to consolidate their presence throughout the region and become the largest retailer in Central America.
- ! Price Smart offers the innovations of frozen specialty products that are not available in other supermarkets, it also offers a cafeteria type service that includes all you can drink sodas.
- ! PriceSmart has opened its second outlet in a large growing working class neighborhood.
- ! Two chains, El Sol and Tapachulteca have sold their stores to Selectos.
- ! Todo Por Menos previously owned by Mas Por Menos Group of Costa Rica was bought by Selectos and has been renamed De Todito.
- ! Hyper Paiz has started building its second outlet.
- ! Supermarkets offer special sales every week during which various food products are featured. Other attractions such as music, sampling and raffles are also part of the merchandising strategy to lure new

³ Began operations in October 1999. Has one additional outlet under construction.

customers.

- ! There is a growing demand for ready to eat products. Supermarkets have taken advantage by opening cafeterias in their outlets which are available in 75% of the supermarkets. These places are very popular for lunch and after working hours.
- ! In addition, supermarkets offer other incentives to consumers such as banking services, film developing, printing and courier services.

B. CONVENIENCE STORES, GAS MARTS

There are three chains of convenience stores: Select Market, Tiger Market and Starmart-Food Marts, which belong to the Shell, Esso (Exxon) and Texaco.

Distribution Channels

- ! Distribution is mainly through local distributors, direct imports are minimal.

Entry Strategy:

- ! New products have to be presented to the purchase manager of each chain and a local distributor must be appointed.
- ! Purchasing managers should be invited to U.S. fairs and food products exhibitions.
- ! Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling.
- ! Esso convenience stores belong to the Convenience Store Association, thus, products can be introduced to Esso (Exxon) through this Association.

Sub-Sector Profile:

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. Of Outlets	Locations (city/region)	Purchasing Agent Type
Select Market	Shell 40% U.K. 60% Netherlands	C	17	Nation wide	Local Distributors
Tiger Market	Esso (Exxon) U.S.	C	39	Nation wide	Local Distributors
Starmart, Food Marts	Texaco U.S.	B	24	4 in San Salvador, 20 nation wide	Local Distributors

Source: Information provided by gas distributors. Due to requests for confidentiality, sales information is provided according to categories outlined under "Supermarkets".

- ! Other than the U.S., products come from Canada, Central America, Colombia, Argentina, Chile, Uruguay and Europe.
- ! 85% of beer sales are domestic product, 5% from the U.S., 8% from Mexico and the rest from Europe.
- ! Major U.S. products sold are chocolates and candies. They comprise 80% of total sales for this category.
- ! 75% of total sales come from locally produced products or from the Central American region, these are mostly fast foods, cigarettes and soft drinks.
- ! Most convenience stores located in the metropolitan area have additional services such as bank tellers. Some also have movie rentals, dry cleaning, car wash and tune-up services.
- ! Store sizes vary, the largest is approximately 1400 square feet, the smallest 430 square feet.
- ! Some convenience stores have started offering ready-to-eat meals such as pizza, hot dogs and fried chicken to eat in or go.

C. TRADITIONAL MARKETS, “MOM AND POP” SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

- ! Traditionally, the public markets have been the main suppliers of fruits, red meat, vegetables, poultry, eggs, pork and fish.
- ! There are seven public markets in San Salvador and at least one in each town.
- ! Security has become an important issue when determining where to make their food purchases. Supermarkets offer a more secure environment for shopping than public markets.
- ! In the last two decades there has been a tendency to purchase in supermarkets, especially for the upper and middle classes. Lately there has been a substantial increase of supermarket customers from the working class and supermarkets are being opened in lower income areas.
- ! Only a few U.S. food products are sold in these markets. Apples and grapes are very popular.
- ! The majority of food products sold are locally produced or come from other Central American countries.
- ! The number of small independent grocery stores in each neighborhood varies from 10 to 100 depending on the size of the neighborhood. These are not designed for the customer to easily see the product and select what they need. Sales are made mostly by product name or category, therefore, it is not recommended to develop a strategy to enter this market. Same applies to the rest of the markets reviewed in this section.

III. COMPETITION, CONSUMER-READY PRODUCTS

- ! In 2001, the U.S. share of the consumer-ready market reached 21%. Guatemala had 27%, Mexico 10%, Nicaragua 11%, Honduras 8% and Costa Rica 7%. It is important to note that many countries also have food processing plants locally which may increase their respective market share.
- ! Powdered milk is mostly imported from New Zealand, the Netherlands and Australia. In addition the New Zealand Dairy Board has built a distribution and packaging facility at a cost of approximately \$5.0 million. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT-long life presentations. There are also donations of powdered milk for the poor which mainly come from the European Union (EU).
- ! El Salvador is a signatory to the Agreement on Central American Tariffs and Duties and a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. In addition, El Salvador has recently signed a free trade agreement with Mexico and the Dominican Republic; and is negotiating with Canada, Chile and Panama.

- ! Even though many food products from Mexico and other nations that have signed free trade agreements with El Salvador will not have immediate duty free access. Their products will begin a gradual tariff reduction that is expected to bring them to zero duty in a period of eight years. This will undoubtedly make products from those nations much more competitive than U.S. food and beverage products.
- ! Mexican companies like Sabritas snacks and Bimbo bakery products have either distribution centers or manufacturing facilities in El Salvador. Other companies like DelValle juices have signed exclusive distribution agreements with the largest Salvadoran drinking water company to enable them access to a wide consumer base.

IV. BEST PRODUCT PROSPECTS

- ! There are many Salvadorans who have studied and/or worked in the U. S. and who have developed a taste for U.S. products.
- ! Traditionally U.S. products are considered of a better quality than products produced locally or which come from another country.
- ! Salvadorans prefer low cost products than to have to pay for high quality products.
- ! Salvadorans who live in the U.S. bring American food products to their relatives as gifts i.e. candies, chocolates, therefore, developing a taste in the local population. Low price is very important for an imported product to have good sales potential.

A. Products in the market, which have good sales potential:

- ! Breakfast cereals
- ! Apples and grapes all year around
- ! Wine
- ! Dog and cat food
- ! Ramen noodle soups
- ! Non-dairy coffee creamers
- ! Canned fruits and vegetables
- ! Meat sausages
- ! Snacks
- ! Pancake and Dessert Mixes
- ! Ketchup and other tomato sauces
- ! Fresh potatoes

B. Products not present in significant quantities, but which have good sales potential:

- ! Frozen foods are growing in demand, and are expected to continue an upward trend
- ! Low fat, low cholesterol products
- ! Pork ribs
- ! Mozzarella cheese
- ! Salad dressings
- ! Stone fruits
- ! Dairy products

- ! Pre-cooked poultry
- ! Deli meats
- ! Beef. While high-end hotels offer an opportunity, beef imports are dominated by Nicaragua which provides good quality and good prices. The U.S. Meat Export Federation is actively promoting U.S. beef in this market. Recent drop in import tariffs from 30 to 15 percent are helping U.S. beef be more competitive.

C. Products that will not do well or cannot be used in the market:

- ! Beer, is present in low quantities because the only local beer manufacturer has a monopoly. This company also has distribution rights for Budweiser, Corona and Guinness.
- ! Tropical fruits, i.e. oranges. They are cheaper in Central American countries.
- ! Microwave products
- ! Fresh or frozen poultry and poultry products. The government has imposed very strict zoosanitary requirements.
- ! According to some supermarket owners, products that do not sell much are: canned beans and soups, cheese filled crackers and t.v. dinners.

V. POST CONTACT AND FURTHER INFORMATION

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